

- ♦ **Currency:** Most currencies in the modern world are **decimalised**, which means that their basic unit (dollar, pound, kroner, etc.) can be divided into smaller parts (cent, penny, ore, etc.) which are generally one hundredth of the main unit. This was not always the case. During the Roman Empire, the main unit of currency was the pound, which was divided into twenty shillings. Each shilling was then worth twelve pennies (originally denarii). This type of system made calculations extremely difficult!!
- ♦ **Exchange Rates:** When you are in a foreign country, you must use the currency of that country. This means that you must exchange your money for the equivalent amount of local currency. Exchange rates show the relationship between the values of currencies. They are published in daily newspapers, among other places, and change constantly.
- ♦ The following is the foreign currency exchange rates from the Internet using the CNNMoney website:

American Dollar		1 USD	in USD
Australian Dollar	AUD		
Brazilian Real	BRL		
British Pound	GBP		
Canadian Dollar	CAD		
Chinese Yuan	CNY		
Danish Kroner	DKK		
Euro	EUR		
Hong Kong Dollar	HKD		
Indian Rupee	INR		
Israeli New Shekel	ILS		
Japanese Yen	JPY		
Malaysian Ringgit	MYR		
Mexican Peso	MXN		
New Zealand Dollar	NZD		
Norwegian Krone	NOK		
Pakistan Rupee	PKR		
Singapore Dollar	SGD		
South African Rand	ZAR		
South Korean Won	KRW		
Swedish Kronor	SEK		
Swiss Franc	CHF		
Taiwanese New Dollar	TWD		
Thai Baht	THB		

using values from Thursday, February 7, 2013

**example:** How many British pounds could be purchased for \$560?

An easy way to make conversions is to use proportions (ratios):

$$\frac{\text{GBP}}{1 \text{ USD}} = \frac{x \text{ GBP}}{560 \text{ USD}}$$

You can then solve by cross multiplying:  $x = 560( \quad )$

Thus  $x = \underline{\hspace{2cm}}$  GBP, which means that \$560 is approx.  $\underline{\hspace{1cm}}$  GBP.

**Topic 8 Day 1 – Currency Conversion**

The following show pictures of some of the common currencies used in the world:



**EURO** \$1 is approximately \_\_\_\_\_ Euro

**example:** How many U.S. dollars is this 5 Euro note worth?



**AUSTRALIAN DOLLAR** \$1 is approximately \_\_\_\_\_ AUD

**example:** How many U.S. dollars is this \$10 Australian note worth?

**JAPANESE YEN** \$1 is approximately \_\_\_\_\_ JPY

**example:** How many U.S. dollars is this 1000 Japanese Yen note worth?



**BRITISH POUND** \$1 is approximately \_\_\_\_\_ GBP

**example:** How many U.S. dollars is this 5 British pound note worth?



**FACT or FICTION???** Does the Ten Thousand Dollar note really exist??

Who is on the front??



**COMMISSION:** It is generally the case that agents who change money between currencies will charge for the service. The charge is called a commission. There are two main ways that commissions are charged:

**1. Fixed percentage:** A fixed percentage, usually between 0.5% to 3% is charged on the amount of currency exchanged.

**example:** A bank changes U.S. dollars to other currency at a fixed commission of 1.5%. Max wishes to convert \$200 to Thai bath, where \$1 USD buys 40.23 Thai bath.

(a.) What commission is charged?

(b.) What does the customer receive?

**2. Buy/sell values:** Banks or agencies may use a buy at rate and sell at rate to be able to charge commission for the exchange of currency. *REMEMBER: The bank always gets the best deal.*

**SELL RATE:** *The bank SELLS you* foreign currency at this rate. It is always the lower rate because the bank doesn't want to give you as much money for every 1 unit of currency you are exchanging. (Example: You are going on a trip to Europe – you go to the bank and the bank sells you so many euro for each dollar that you exchange).

**BUY RATE:** *The bank BUYS back* your foreign currency at this rate. It is always the higher rate because the bank wants to get the most foreign currency for every 1 unit of currency you will be getting back. (Example: You return from your trip to Europe and have leftover euros that you want to exchange back to dollars. The bank will buy back your euros at the buy rate)

**example:** A currency exchange service exchanges 1 euro for Japanese Yen using: “buy at 135.69, sell at 132.08.” Cedric wishes to exchange 800 euro for Yen.

(a.) How many Yen will he receive?

(b.) If the Yen in part (a.) is converted immediately back to euro, how many euro are bought?

(c.) What is the resultant commission on the double transaction?

**examples:**

**1.** Given that 1 South African rand = \$0.2754 Singapore, find how many Singapore dollars you could buy for 2500 South African rand.

**2.** A bank exchanges US dollars for a commission of 1.8%. A customer wishes to convert \$400 USD to Mexican pesos (MXN) for a trip.

(a.) What commission is charged?

(b.) How many MXN will the customer receive?